

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 SS-15 L-03 H-03 NSC-10 CAB-09

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DOT-00 SCA-01 SCS-03 NEA-10 IO-13 TRSE-00 RSR-01

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P R 181809Z JUL 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 6364

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION BERLIN

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E.O. 11652: N/A

TAGS: ETRN, WB, GW

SUBJECT: CIVAIR: PANAM PROPOSAL TO ENTER THE INCLUSIVE TOUR CHARTER MARKET BETWEEN BERLIN AND MEDITERRANEAN POINTS

1. SUMMARY: PANAM HAS APPLIED FOR TRIPARTITE AUTHORITY TO BROADEN ITS BERLIN-BASED ACTIVITIES BY ENTERING THE BERLIN/MEDITERRANEAN INCLUSIVE TOUR MARKET WHICH, UP TO NOW, HAS BEEN SERVED ONLY BY NON-SCHEDULED CARRIERS, CHIEFLY MODERN AIR TRANSPORT (US) AND TWO UK CARRIERS. THE EFFECTS ON THE MARKET AND OTHER CONSIDERATIONS, INCLUDING POSSIBLE BRITISH VIEWS, ARE DISCUSSED BELOW. THE EMBASSY HAS NOT YET SOLICITED BRITISH OR MODERN AIR REACTION TO PANAM'S PROPOSAL, BUT OUR PRELIMINARY VIEW IS THAT ENTRY OF A NEW, STRONG CARRIER IN THIS MARKET PLUS THE POSSIBILITY THAT BEA MIGHT ALSO REQUEST SIMILAR AUTHORITY COULD HAVE ADVERSE EFFECTS ON MODERN. ACTION REQUESTED: EMBASSY WOULD APPRECIATE ANY COMMENTS THE DEPARTMENT MAY HAVE. PANAM IS PRESSING FOR A PROMPT

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DECISION, BUT IF THE US DOES SUPPORT THE PANAM PROPOSAL,

COORDINATION WITH THE BRITISH AND FRENCH WILL TAKE SOME TIME. END SUMMARY.

2. WITH THE DROP IN PASSENGER TRAFFIC IN THE PAST YEAR ON THE INTERNAL GERMAN SERVICES (IGS) BETWEEN THE FRG AND BERLIN, PANAM HAS FOUND THAT IT HAS SOME AIRCRAFT TIME AVAILABLE, LARGELY BECAUSE OF THE DECREASE IN EXTRA SECTIONS ON IGS FLIGHTS. SEEKING TO EXPAND ITS BERLIN ACTIVITIES AND TO RETAIN OR EXPAND ITS CURRENT FLEET LEVEL OF ELEVEN 727'S, PANAM HAS INFORMED THE EMBASSY RECENTLY THAT IT WISHES AUTHORITY TO ENTER THE INCLUSIVE TOUR CHARTER MARKET BETWEEN BERLIN AND MEDITERRANEAN POINTS, SUCH AS MALLORCA AND DESTINATIONS IN SPAIN AND ITALY. PANAM HAS IN MIND BEGINNING THESE OPERATIONS--ASSUMING IT CAN GET CONTRACTS FROM TOUR OPERATORS--WITH EXISTING AIRCRAFT. IT WOULD, HOWEVER, BE PREPARED TO EXPAND ITS FLEET BY UP TO THREE AIRCRAFT, BASED AT TEGEL AND ENGAGED PRIMARILY IN CHARTER ACTIVITIES, IF IT OBTAINED A SUFFICIENT SHARE OF THE MARKET TO JUSTIFY THIS STEP.

3. PANAM HAS NOT SO FAR SIGNED ANY CONTRACT WITH OPERATORS, NOR HAS IT APPROACHED THE CIVIL AVIATION AUTHORITIES OF SPAIN OR OTHER POSSIBLE DESTINATION COUNTRIES FOR LANDING AND UPLIFT RIGHTS. IT HAS, HOWEVER, BEGUN NEGOTIATING WITH ONE TOUR OPERATOR AND FEELS CERTAIN THAT IT CAN GET AT LEAST ONE SUBSTANTIAL CONTRACT FOR A SERIES OF IT FLIGHTS ON THE BASIS OF WHICH IT WOULD BEGIN IT OPERATIONS IF THE NECESSARY GOVERNMENT AUTHORIZATIONS (INCLUDING ALLIED AGREEMENT) ARE FORTHCOMING.

4. THE EMBASSY (CIVIL AIR ATTACHE) HAS SO FAR INFORMED PANAM ONLY THAT WE ARE PREPARED TO GIVE CONSIDERATION TO PANAM'S PROPOSAL. GIVEN BERLIN'S SPECIAL SITUATION, WE ASSUME THAT THE PROPOSAL SHOULD BE CONSIDERED ON ITS OWN MERITS, IN TERMS OF ITS IMPACT ON THE BERLIN CIVIL AIR TRANSPORT MARKET, AND THAT THERE WOULD BE NO REGULATORY OBSTACLE TO PANAM, EVEN THOUGH AN IATA CARRIER, TO OPERATING IT FLIGHTS FROM BERLIN. NEITHER THE FRENCH LIMITED OFFICIAL USE

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NOR THE BRITISH HAVE BEEN INFORMED YET OF THE PANAM PROPOSAL, NOR HAVE THE VIEWS OF THE BERLIN SUPPLEMENTAL CARRIERS SO FAR BEEN REQUESTED.

5. UP TO THE PRESENT, THE BERLIN/MEDITERRANEAN IT TRAFFIC HAS BEEN IN THE HANDS OF THREE CARRIERS, MODERN AIR TRANSPORT (US, BERLIN-BASED), DANAIR (UK) AND LAKER (UK), ALTHOUGH OTHER ALLIED FLAG NON-SKED CARRIERS HAVE

PARTICIPATED OCCASIONALLY IN A MINOR WAY. IN THE 1972 SEASON, APPROXIMATELY 203,000 INCLUSIVE TOUR PASSENGERS WERE CARRIED BY ALL NON-SKEDS TO ALL MEDITERRANEAN DESTINATIONS. TOTAL SEATS OFFERED WERE 288 (THIS, AND SUBSEQUENT FIGURES IN THOUSANDS) WITH A RESULTING PAX LOAD FACTOR OF ABOUT 70 PER CENT. IN THE 1973 MAY-OCTOBER SEASON, ON THE BASIS OF PROGRAMS AND CLEARANCES, ABOUT 274 SEATS TO ALL DESTINATIONS WILL BE OFFERED, OF

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WHICH 160 BY MAT, 56 BY LAKER AND 45 BY DANAIR. OF THIS TRAFFIC, THE MOST IMPORTANT DESTINATIONS AND THOSE MOST LIKELY TO BE AFFECTED BY THE PROPOSED PANAM PROGRAM ARE SPANISH (INCLUDING ISLANDS) AND ITALIAN. IN THE 1973 SEASON, 116 SEATS WILL BE OFFERED TO SPANISH DESTINATIONS; 80 BY MAT AND 18 EACH BY LAKER AND DANAIR. TO ITALIAN DESTINATIONS, 49 SEATS ARE OFFERED, 32 BY MAT AND 7 EACH BY LAKER AND DANAIR. A SINGLE IT CONTRACT OF USUAL SIZE, WHICH MIGHT INVOLVE THREE ROUND TRIPS WEEKLY TO A SINGLE DESTINATION WITH A BOEING 727 OVER

A SIX MONTHS' PERIOD, WOULD PLACE ROUGHLY AN ADDITIONAL 125,000 SEATS ON THE MARKET. A PART OF THIS MIGHT BE NEW BUSINESS, AND PANAM MIGHT AT FIRST ONLY BE ABLE TO OBTAIN SMALLER CONTRACTS, BUT IT SEEMS APPARENT TO US THAT IN ANY CIRCUMSTANCES THE MARKET IMPACT WOULD BE CONSIDERABLE. THERE WOULD BE A DISTINCTION, IT SHOULD BE NOTED, BETWEEN (A) AUTHORIZING PANAM TO USE SOME EXISTING AND HOPEFULLY TEMPORARY EXCESS CAPACITY IN ITS PRESENT IGS FLEET TO OPERATE MEDITERRANEAN ITS, AND (B) AUTHORIZING PANAM TO AGGREGATE LIMITED OFFICIAL USE

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SIVELY ENTER THE BERLIN IT MARKET, BRINGING IN ADDITIONAL AIRCRAFT CAPACITY TO MEET SUCH NEW AND ADDITIONAL CONTRACTS WHICH THEIR SALES FORCE CAN OBTAIN.

6. ALLIED VIEWS: THE FRENCH OPERATE ONLY A MINIMAL PORTION OF THIS TRAFFIC AND WILL PROBABLY LEAVE THE DECISION UP TO THE BRITISH AND OURSELVES. THE BRITISH MAY WELL HAVE OBJECTIONS TO PANAM'S ENTRY INTO THE IT MARKET BECAUSE OF ITS POSSIBLE EFFECT ON LAKER AND DANAIR REVENUES. THEY CAN BE EXPECTED ALSO TO DEMAND RIGHTS, AT LEAST IN PRINCIPLE, FOR BEA TO OPERATE ITS, IN EXCHANGE FOR APPROVAL OF PANAM'S PROPOSAL. THEIR FINAL POSITION WOULD TAKE INTO CONSIDERATION THEIR ESTIMATE OF BEA'S CAPABILITY AND CHANCES OF GETTING PART OF THE IT MARKET, PLUS ANY POLICY VIEWS THEY MAY HAVE ABOUT LETTING IGS SCHEDULED OPERATORS GO INTO THE IT MARKET. ALL THINGS CONSIDERED, OUR GUESS IS THE BRITISH WILL FIND OBJECTIONS TO IT OPERATIONS BY PANAM (AND BEA) ON THE BASIS THAT THE NET RESULT WILL NOT IMPROVE THEIR OWN CARRIERS' POSITION IN THE IT MARKET.

7. COMMENT: THE MAIN IMPACT OF PANAM'S ENTRY INTO THE BERLIN/MEDITERRANEAN IT MARKET WOULD BE ON MODERN AIR. AS THE PRINCIPAL CARRIER FOR SUCH TOURS, AND THE ONLY SUPPLEMENTAL CARRIER WITH ITS FIVE CONVAIR 990 AIRCRAFT BASED IN BERLIN, IT CAN BE ASSUMED THAT A VIGOROUS SALES EFFORT BY PANAM WOULD INEVITABLY CUT INTO MODERN'S BUSINESS. THE IT BUSINESS IS ALREADY HIGHLY COMPETITIVE IN BERLIN, SALES ARE PRESSED VIGOROUSLY, AND THE EMBASSY DOUBTS THAT THE MARKET IS SUFFICIENTLY BROAD TO ABSORB PANAM'S PROPOSED IT ACTIVITIES AND NOT HAVE ADVERSE EFFECTS ON MODERN. WITHOUT DISCOUNTING THE POSSIBILITY OF NEW BUSINESS, AND ALTHOUGH WE HAVE NOT YET HEARD MODERN'S VIEWS, WE ARE CONCERNED OVER MODERN'S FINANCIAL POSITION, WHICH IS NOT ALL THAT SECURE. THE EMBASSY BELIEVES THAT THE PRESENCE OF A SECOND US CARRIER IN BERLIN, EVEN THOUGH A NON-SCHEDULED CARRIER, OFFERS POLITICAL ADVANTAGES IN TERMS OF US PRESENCE, AS WELL

AS ECONOMIC ADVANTAGES IN SERVING AS A PSYCHOLOGICAL,
IF NOT A DIRECTLY COMPETITIVE RESTRAINT ON THE SCHEDULED
IGS CARRIERS. THE EMBASSY PROPOSES, BEFORE ARRIVING AT
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A RECOMMENDATION ON A COURSE OF ACTION, TO SOUND OUT
BRITISH VIEWS AND TO ASK MODERN AIR TRANSPORT FOR ITS
COMMENTS. WE DO NOT EXPECT THAT THIS CAN BE
ACCOMPLISHED UNTIL NEXT WEEK. ACTION REQUESTED: IN
THE MEANWHILE, THE EMBASSY WOULD APPRECIATE ANY VIEWS
WHICH THE DEPARTMENT MAY HAVE ON THE PANAM PROPOSAL.
HILLENBRAND

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